

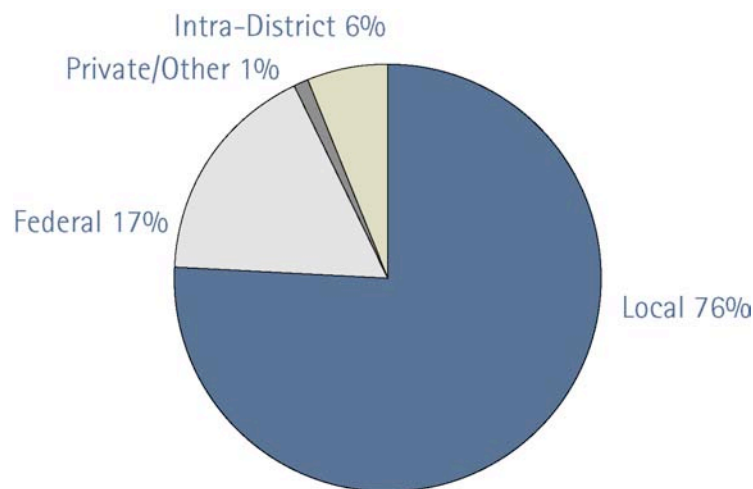
REVENUES

Sources of Revenue

Unlike other school districts, DCPS acts in the capacity of both a Local Education Agency (LEA) and the State Education Agency (SEA). It receives revenue from several different sources, including: local, federal, private, and other intra-district funds. Of these categories, the majority of DCP revenues come from local funds that are appropriated annually by the mayor and Council through the City's budgeting process.

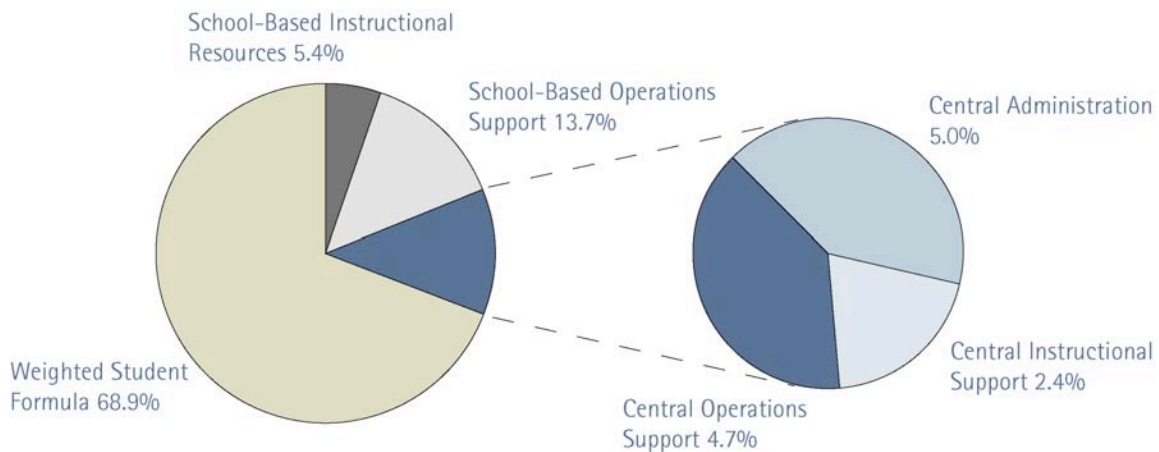
The FY 2006 Proposed Budget assumes the following revenues:

- \$775,509,000 in Local Revenue, including \$563,335,000 for the Local Education Agency and \$212,174,000 for the State Education Agency
- \$145,146,793 in Federal Revenue
- \$28,200,000 in Federal Carryover from FY 2005
- \$4,665,602 in Private Revenue
- \$7,909,830 in Other Revenue
- \$62,377,537 in Intra-District Revenue



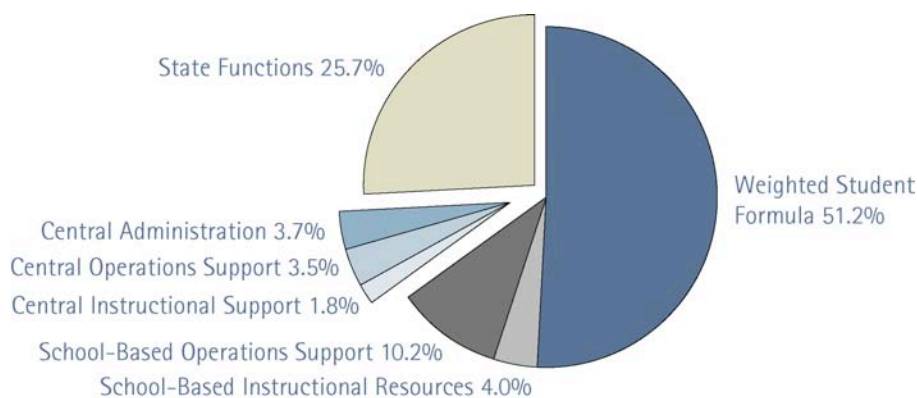
As shown below, the majority of the Proposed FY 2006 budget will be utilized to support school level allocations and personnel costs, comprising 68.9 percent of the total Local budget of \$775.5M when State Level functions are excluded, an increase of approximately 3 percent over FY 2005. Approximately 5.0 percent of the total Local budget will be utilized to support central administrative functions, an increase of one percent as a result of the additional funds added to support IT functions.

DCPS Proposed Budget Local Funds FY 2006 by Category (State Level Functions Not Included)



State Level functions represent approximately 25.7 percent of the Board's Projected FY 2006 Local revenue. As shown below, when State Level functions are accounted for, approximately 51.2 percent of the projected revenue is utilized for School Based allocations and personnel costs and 3.7 percent is allocated for central administration.

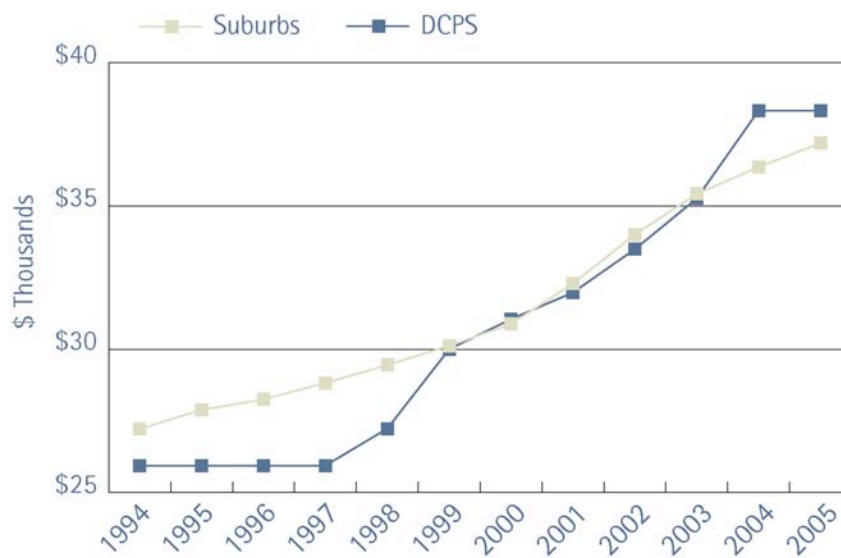
DCPS Projected FY 2006 Local Funds by Sector



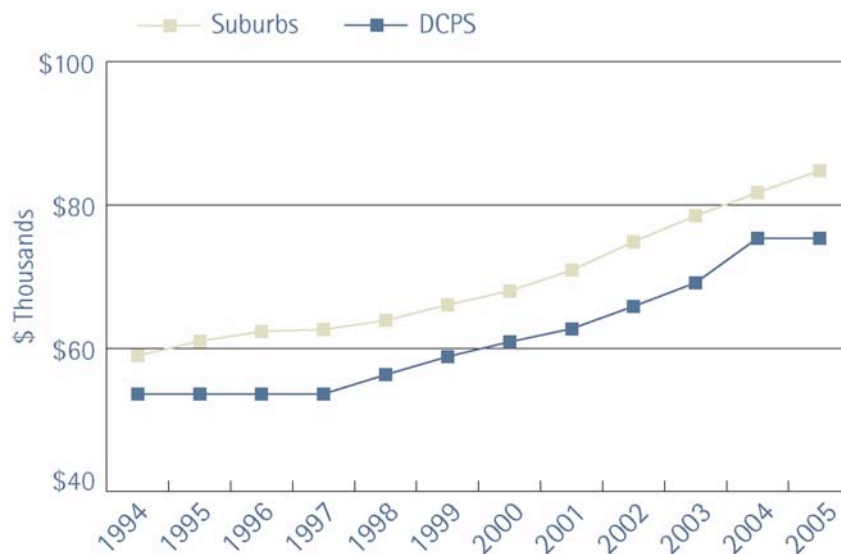
Rising Costs

In the last few years, DCPS has experienced significant increases in labor costs in an attempt to offer more competitive salaries for school based personnel. In FY 2004, principals and teachers received collective bargaining increases of 7 percent and 9 percent respectively. As shown below, historically, DCPS teacher salaries lagged far behind suburban salaries during the mid-90s. Recent collective bargaining contracts have neutralized salary differences for entering teachers to aid in recruitment placing DCPS in a more competitive position for attracting new teachers. However, experienced teacher salaries still lag far behind suburban salaries earning approximately \$9,400 less annually.

Beginning Teacher Salaries: DCPS vs. Surrounding Suburbs Average (FY 1994–2005)

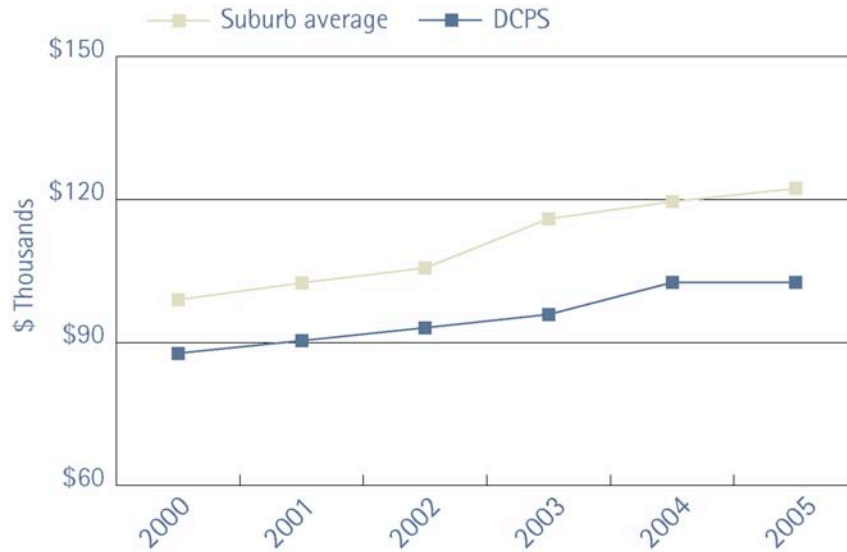


Experienced Teacher Salaries: DCPS vs. Surrounding Suburbs Average (FY 1994–2005)



There is also a significant variance in salaries for DCPS principals when compared with their regional counterparts. As shown below, the average salary of our principals is almost 16 percent less than in the surrounding suburbs. This disparity in pay plays a major part in our inability to compete with other districts for the best qualified educational leaders.

Experienced Principal Salaries: DCPS vs. Surrounding Suburbs (FY 2000–2005)

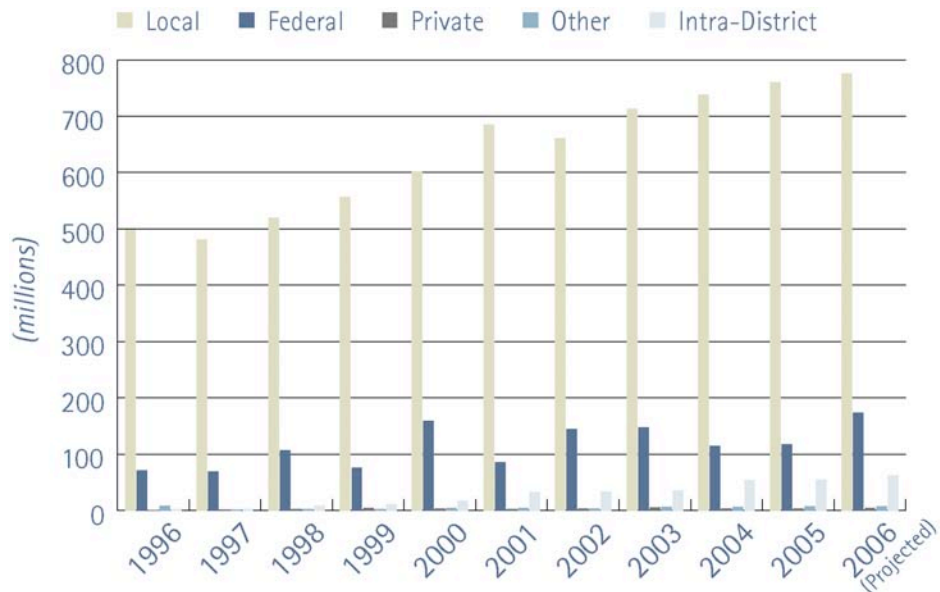


Revenue Trends

Over the past 10 years (*1996–2006 projected*), the total operating budget has increased at an average rate of 6 percent with local revenues progressing at an average rate of 4 percent.

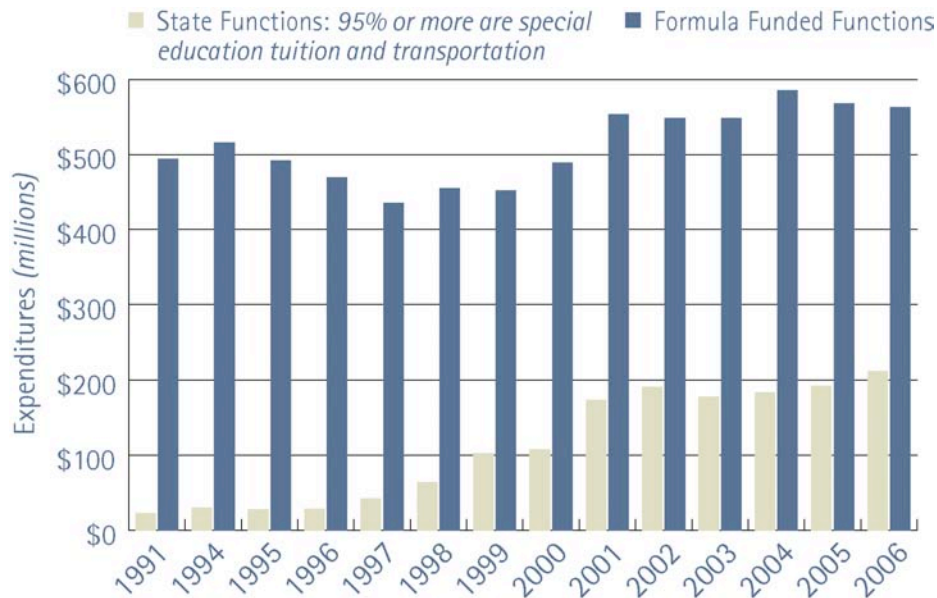
Prior to FY 1998, locally funded revenue had decreased every year from FY 1994 to FY 1997. As depicted in the chart below, from FY 1998 to FY 2002, local revenue increased at an average rate of 6 percent for this five-year fiscal year period, which included a budget decrease of over 4 percent between FY 2001 to FY 2002. Total revenue in FY 2004 and FY2005 did not exceed a growth rate of 3 percent increasing by only one percent and 2.9 percent respectively.

10 Year Revenue Trend by Fund Type



The total projected Local revenue of \$775,509,000 includes an increase of \$15M to recognize the additional cost burden of State-Level functions. Historically, State level revenue has not kept pace with the rising costs for providing these services as mandated by the court system.

DCPS: State vs. Formula Functions (FY 1991–2006 Board of Education Budget)



As a result, DCPS has had to reallocate funding from its local education program to support the total costs for special education. The projected Local revenue for FY 2006 recognizes the historical under-funding and includes an increase of \$19.7M for State-Level functions. In FY 2003, major reform efforts were put into place to control escalating special education costs. As a result of these efforts, DCPS has been able to contain special education costs even though more students are participating in special education programs. Historical expenditure trends indicate that DCPS would have spent nearly \$29M more in local funds had reform initiatives not been implemented.

Federal revenues have progressively increased over the last few fiscal years. The FY 2006 projected Federal revenue is increasing by approximately 23.58 percent from FY 2005 levels. DCPS is projecting \$145,094,947 in federal grant revenues in FY 2006. In addition to this revenue calculation, DCPS projects \$28,251,846 in estimated carry-over from the prior fiscal year for a total Federal grant budget of \$173,346,793 in FY 2006.

Until recently, Private/Other revenues had remained essentially constant. Private funds are expected to increase by \$995,602 or 27.13 percent as a result of newly introduced private programs.

The FY 2006 projected revenue for Intra-Districts is \$62,377,537. This represents an increase of \$7,971,537 or an increase of 14.65 percent when compared to the FY 2005 approved levels. This is primarily attributed to a projected revenue increase for the out-of-state tuition payments for non-special education students through Child and Family Services.

LOCAL REVENUES

Local Appropriated Funds are allocated to DCPS utilizing two funding mechanisms. The most significant component of the allocation that DCPS receives each year is derived from the Uniform Per Student Funding Formula (UPSFF), which accounts for the Local Educational program or LEA component of the budget that is administered by DCPS. Beginning with FY 2000, the mechanism was adopted by the City to appropriate local funds to both DCPS and Public Charter Schools. The primary intent of the UPSFF is to ensure that the District's financial resources were distributed equitably among public schools and public charter schools. In accordance with the UPSFF, public schools and public charter schools are to be funded on a per student basis. The UPSFF is intended to provide a minimum or "foundation" level of funding for each student.

Using the UPSFF, the City makes its local appropriation to DCPS and the public charter schools based on prior year pupil counts and categorical weights. Add-on weights are also applied to account for certain student characteristics including: grade level, special education, minority language education, participation in summer school and enrollment in a residential versus day school program; attempting to fund both direct and indirect student costs.

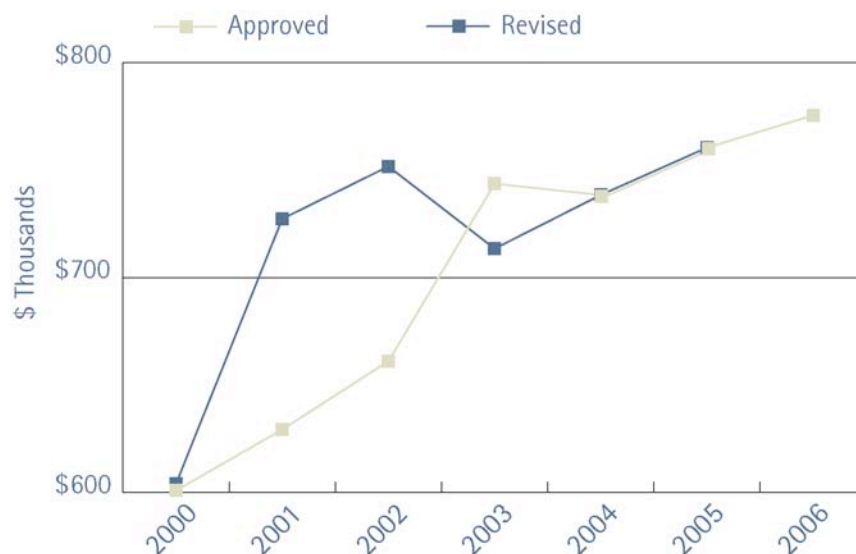
Based on the total local funds appropriated to DCPS through the UPSFF, schools receive their funding in accordance with DCPS's Weighted Student Formula (WSF). The WSF method of allocation distributes resources based on a student's need. Characteristics identified by WSF include: (1) grade level, (2) eligibility for free or reduced priced lunch, (3) special education (based on four levels of

need) and (4) English proficiency. The purpose of the WSF allocations method is to distribute resources across the school system in a more equitable manner than prior models. The WSF method of allocation makes DCPS's system of resource allocation more accountable and transparent to parents and other stakeholders. The balance of local funds not allocated directly to the schools through the WSF is distributed among central services to support local school operations.

The second component of the allocation is reserved to support State-Level Functions administered by DCPS. These areas of service include Charter school oversight, transportation for Special Education students, non-public tuition payments for children with special needs who are in private placements and reimbursements for attorney fees resulting for special education hearings and appeals.

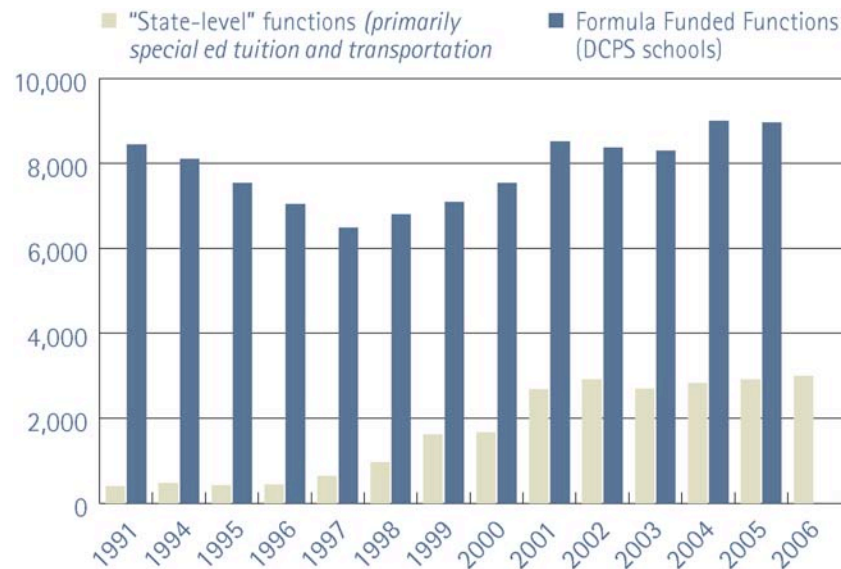
Projected FY 2006 Appropriated revenue totals \$775,509,000 representing an increase of \$15,014,295 or 1.97 percent from the FY 2005 Approved Budget of \$760,494,705.

District of Columbia Public School Recent Trend in Local Revenues



The projected appropriated revenue attempts to align budget allocations with the financial costs associated with the level of education service provided. The LEA component of the allocation includes an increase in the existing foundation level per student from \$6,904 (FY 2005) to \$7,116 (FY 2006 Proposed), or \$212 per student. The increase represents an inflationary adjustment of 3.07 percent which generates an additional \$17.4M. This increase for inflationary costs is offset by a reduction of \$22.1M due to enrollment declines based upon pre-audit enrollment data, resulting in a net decrease of \$4.7M for LEA functions.

Per Pupil Expenditures for State and Formula Functions in Constant Dollars



The projected funding for SEA functions is expected to increase by 10 percent, or 19.7M thus recognizing the ever-increasing costs associated with Special Education, private tuition and transportation that were historically supported by LEA funds.

The total proposed allocation represents an overall increase in local funds of \$15M that will primarily be utilized to support continued costs for state level special education services.

**District of Columbia Public Schools
Uniform Per Student Funding Formula
SEO Proposed Weights and Foundation
FY 2006 Budget Target**

Foundation Amount = 7115.54

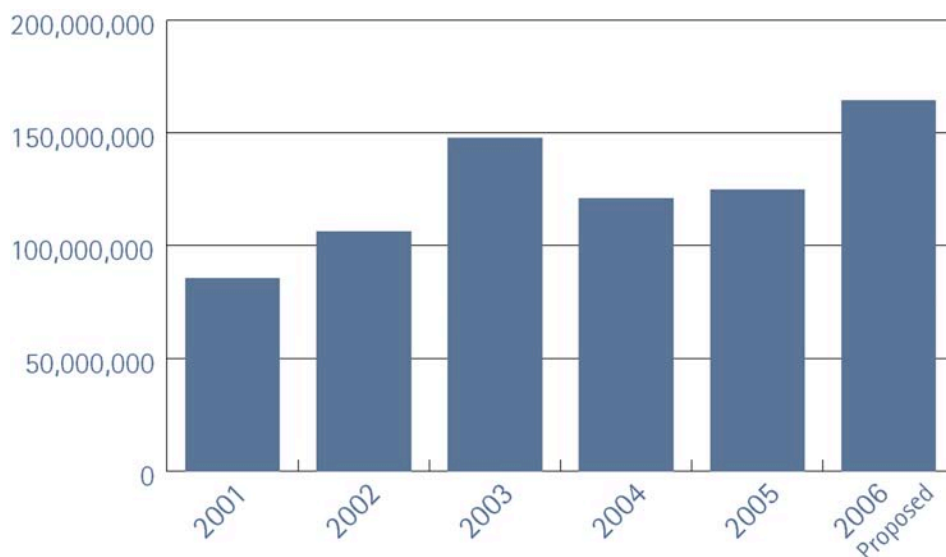
| | Weight | # of Students | Weighted Amount (Rounded) | Total Revenue (Rounded) |
|--|---------------|--------------------------|--|------------------------------------|
| General Education | | | | |
| Pre-School | 1.17 | 1,384 | 8,325.18 | 11,522,000 |
| Pre-Kindergarten | 1.17 | 2,978 | 8,325.18 | 24,792,000 |
| Kindergarten | 1.03 | 4,464 | 7,329.01 | 32,717,000 |
| Grades 1-3 | 1.03 | 13,491 | 7,329.01 | 98,876,000 |
| Grades 4-5 | 1.00 | 8,997 | 7,115.54 | 64,019,000 |
| Ungraded Elementary | 1.03 | 285 | 7,329.01 | 2,089,000 |
| Grades 6 -8 | 1.03 | 12,122 | 7,329.01 | 88,842,000 |
| Ungraded Middle/ Junior High | 1.03 | 131 | 7,329.01 | 960,000 |
| Grades 9 -12 | 1.17 | 12,935 | 8,325.18 | 107,686,000 |
| Ungraded Senior High | 1.17 | 1,090 | 8,325.18 | 9,074,000 |
| Alternative | 1.30 | 289 | 9,250.20 | 2,673,000 |
| Special Ed Schools | 1.17 | 1,030 | 8,325.18 | 8,575,000 |
| Adult | 0.75 | | 5,336.66 | 0 |
| <i>Subtotal General Education</i> | | 59,196 | | 451,825,000 |
| Private Placement - Non-Public Tuition | | 2,674 | | |
| Total Student Enrollment | | 61,870 | 62,280.00 | -4.95% |
| Special Education | | | | |
| Level 1 | 0.55 | 1,988 | 3,913.55 | 7,780,000 |
| Level 2 | 0.85 | 3,001 | 6,048.21 | 18,151,000 |
| Level 3 | 1.50 | 1,610 | 10,673.31 | 17,184,000 |
| Level 4 | 2.70 | 2,353 | 19,211.96 | 45,206,000 |
| <i>Subtotal for Special Education</i> | | 8,952 | | 88,321,000 |
| Other Categories | | | | |
| Limited English/Non-English (LEP/NEP) | 0.40 | 4,742 | 2,846.22 | 13,497,000 |
| Summer School | 0.17 | 8,012 | 1,209.64 | 9,692,000 |
| Total Local Education Agency | | | | 563,335,000 |

| | | |
|--|--|--------------------|
| <i>Foundation level per student:</i> \$7,116 | Plus State Education Agency Functions | |
| <i>Average local budget per student:</i> \$12,534 | Non-Public Tuition payments | 82,597,000 |
| | Special Education Transportation | 61,997,000 |
| | Non-Public Tuition - CFSA | 19,046,000 |
| | Non-Public Tuition - Mental Health | 4,134,000 |
| <i>Average total formula allocation per DCPS student:</i> \$9,516 | Other Special Education | 10,731,000 |
| | Juvenile Justice Educational Services | 5,697,000 |
| | 7 Point Plan | 3,536,000 |
| <i>Average add-on per DCPS special education student:</i> \$9,866 | Board of Education Charter Oversight | 625,000 |
| | Attorney Fees | 9,822,000 |
| | Swing Space Transportation | 3,178,000 |
| | Labor Contingency | 4,903,000 |
| | Plus Inflationary Increase | 5,908,000 |
| | Total State Education Agency | 212,174,000 |
| | Total FY 2006 Local Budget | 775,509,000 |

FEDERAL REVENUE

As shown in the following chart, federal revenue is increasing in FY 2006 by approximately 23.58 percent from FY 2005 levels. DCPS is projecting \$145,094,947 in federal grant revenues in FY 2006. In addition to this revenue calculation, DCPS projects \$28,251,846 in estimated carry-over from the prior fiscal year for a total federal grant budget of \$173,346,793 for FY 2006. Additionally, \$11,685,714 represents increased award amounts from grant funding under the No Child Left Behind Act (NCLB) for FY 2006.

District of Columbia Federal Grant Revenue (FY 1999–2006, Proposed)



DCPS will continue its efforts in implementing the provisions of the No Child Left Behind Act with a focus on maximizing federal resources to ensure all students meet the state's content and academic performance standards.

Use of Federal Funds

Under the State Consolidated Application and Competitive Grant Programs to the U.S. Department of Education and other government agencies, DCPS generated \$120,616,412 in grants for SY 2003–04 and expects to generate \$117,449,261 and 145,094,947 for SY 2004–05 and SY 2005–2006 respectively. In SY 2004–05, DCPS anticipates allocating \$16,868,890 to charter schools through formula NCLB funding. Additionally, DCPS will administer open competitions for six competitive grant programs. Eligible entities include DCPS and charter school LEA's. The Office of Federal Grants Programs within DCPS works with LEA's, including public charter schools, to assist them in focusing their supplemental federal resources on the key areas of educational need and develop programs toward the goal of ensuring that all students achieve proficiency in meeting the state academic content and performance standards.

How has NCLB changed federal revenues?

The chart below delineates changes in the federal grant revenues. There are several federal programs that will end in FY 2005, namely Career Resource Network, Comprehensive School Grant (OMAR) at Oyster and Partnerships in Character Education. DCPS will be requesting reauthorization for these three grant programs and therefore including projected revenue in FY 2006. Other programs will experience significant increases. Title I, for instance, will increase by 21.80% in FY 2006, for a total of \$55,988,733 reserved for the District of Columbia. Additionally, DCPS has received the following new competitive grants in FY 2005:

| | |
|--|-------------|
| Charter Schools Facilities Demonstration Program | \$1,031,345 |
| Smaller Learning Communities Program | \$1,200,000 |
| Counseling Demonstration Program | \$ 386,027 |

DCPS continues working to develop and implement programs under NCLB to ensure that all students receive the maximum benefit of the federal resources allocated on their behalf.

| Federal Grant Revenues | | | |
|---|------------------|-------------------------|------------------|
| Grant Description | FY 2005 Revenues | FY 2006 Revenues (Proj) | Percent Variance |
| 21 st Century Community Learning Centers | 2,940,000 | 4,895,443 | 39.05% |
| Advanced Placement Fees | 171,717 | 171,717 | 0.00% |
| Advanced Placement Incentive | 0 | 273,646 | 100.00% |
| Administration-State | 0 | 1,732,872 | 100.00% |
| Anticipated Grant Opportunities | 1,494,975 | 3,000,000 | 50.17% |
| Arts in Education Program | 113,385 | 148,029 | 23.40% |
| Career Resource Network | 117,593 | 117,593 | 0.00% |
| Charter Schools Facility Demonstration Program | 0 | 3,739,500 | 100.00% |
| Comprehensive School Grant – OMAR | 182,204 | 182,204 | 0.00% |
| Comprehensive School Reform | 839,871 | 926,541 | 9.35% |
| Counseling Demonstration Program | 0 | 386,027 | 100.00% |
| Early Childhood & Headstart Programs | 6,434,734 | 6,146,641 | -4.70% |
| Foreign Language Assistance Program | 165,317 | 165,317 | 0.00% |
| HIV/AIDS State Program | 249,936 | 249,936 | 0.00% |
| IDEA, Part B – Grants to States | 13,295,562 | 15,642,961 | 15.01% |
| IDEA, Part B – Preschool Grants | 255,836 | 255,352 | 0.00% |
| Impact Aid | 900,000 | 1,671,774 | 46.20% |
| Indirect Cost Recovery | 4,098,695 | 4,068,348 | 10.40% |
| Learn & Serve | 21,750 | 0 | -100.00% |
| NAEP State Coordinator | 98,167 | 98,167 | -.75% |
| Partnership in Character Education | 141,015 | 141,015 | 0.00% |
| Refugee Children Impact Grant | 99,460 | 72,008 | -38.12% |
| Robert Byrd Scholarship | 63,000 | 61,500 | -3.28% |
| Safe and Healthy Students | 2,892,480 | 2,892,480 | 0.00% |
| Smaller Learning Communities Grant Program | 0 | 1,200,000 | 100.00% |

| Grant Description | FY 2005 Revenues | FY 2006 Revenues (Proj) | Percent Variance |
|--|--------------------|-------------------------|------------------|
| Special Education State Improvement Grant | 0 | 841,940 | 100.00% |
| Teacher Quality Enhancement Program | 1,066,416 | 1,066,416 | 0.00% |
| Teachers and Personnel Grant | 235,272 | 235,272 | 0.00% |
| Teaching of American History | 345,463 | 356,014 | 2.96% |
| Title I – Education of the Disadvantaged | 43,780,461 | 55,988,733 | 21.80% |
| Title I, Part B – Even Start | 795,000 | 1,113,439 | 28.60% |
| Title I, Part B – Reading First | 2,690,469 | 2,860,462 | 5.95% |
| Title I, Part C – Migrant Education | 441,230 | 441,324 | 0.00% |
| Title I, Part D – Neglected and Delinquent | 124,454 | 135,869 | 8.40% |
| Title II – Improving Teacher Quality | 13,567,163 | 13,961,803 | 2.83% |
| Title II, Part B – Math/Science Partnerships | 499,218 | 745,575 | 33.04% |
| Title II, Part D – Enhancing Ed. Through Tech. | 3,351,206 | 3,337,645 | -.41% |
| Title III – Language Acquisition Grant | 683,907 | 729,254 | 6.22% |
| Title IV – Community Service for Expelled Students | 248,375 | 248,375 | 0.00% |
| Title IV – Safe and Drug Free Schools | 2,292,554 | 2,152,631 | -6.50% |
| Title V – Innovative Education Programs | 1,911,525 | 1,472,366 | -29.83% |
| Title V, Part B – Public Charter Schools Program | 2,400,000 | 2,727,000 | 11.99% |
| Title VI – State Assessment | 3,351,859 | 3,332,111 | -.59% |
| Transition to Teaching | 548,187 | 552,375 | .76% |
| Vocational Education – Tech Prep | 325,834 | 342,351 | 4.82% |
| Vocational Education-Basic Grants to States | 4,214,921 | 4,214,921 | 0.00% |
| TOTAL | 117,449,261 | 145,094,947 | 23.58% |

PRIVATE, SPECIAL PURPOSE AND INTRA-DISTRICT REVENUE

Private Revenues

Private revenue includes funding from private grants that are retained by the agency for the intended purpose of the grant. For example, Baxter International Health has donated funds to three D.C. public schools that will provide vital services to children, families and communities affected by the Pentagon terrorist attack. As the table below shows, DCPS's Private Revenue projections increased by \$995,602 between FY 2005 and FY 2006. The increase in FY 2006 primarily attributed to increase anticipation in revenues from Channel 28 based on prior year contributions and revenues received from Verizon Enterprise Solutions for internet wiring.

| District of Columbia Public Schools — Private Revenue | | |
|---|---------------------------|----------------------------|
| Description | FY2005 Projected Revenues | FY 2006 Projected Revenues |
| Community Foundation for the National Capital Region | 100,000.00 | 0.00 |
| Baxter International Health | 140,000.00 | 140,000.00 |
| GLOBE Project | 80,000.00 | 0.00 |
| Channel 28 | 300,000.00 | 550,000.00 |
| Consolidated Head Start | 3,050,000.00 | 3,267,628.00 |
| DC After School Program | 0.00 | 75,974.00 |
| Bell Atlantic Internet Wiring | 0.00 | 632,000.00 |
| | \$3,670,000.00 | \$4,665,602.00 |

Other Revenues

Funding from other sources include revenue from fees and charges that are collected and spent by DCPS for costs associated with certain public services such as the rental of DCPS facility space. The projected total available resources for FY 2006 are \$7,909,830, which is an increase of \$579,838 or 7.9 percent from the FY 2005 projected revenue of \$7,329,992.

| District of Columbia Public Schools – Special Purpose Revenue | | | |
|---|--------------------------------------|---------------------------|---------------------------|
| Fund Detail | Fund Detail Title | FY 2005 Projected Revenue | FY 2006 Projected Revenue |
| 601 | Security Deposits | \$14,819 | \$2,153 |
| 0602 | ROTC | \$962,000 | \$801,808 |
| 0603 | Lease Income | \$2,102,223 | \$2,768,682 |
| 0604 | Pepco | \$143,128 | \$179,654 |
| 0607 | Custodial | \$228,716 | \$256,501 |
| 0608 | Nonresident | \$420,868 | \$805,996 |
| 0609 | Security | \$152,420 | \$123,698 |
| 0611 | Cafeteria | \$1,071,710 | \$1,141,000 |
| 0613 | Vending Machine Sales | \$470,737 | \$427,562 |
| 0621 | Parking Fees | \$69,371 | \$73,137 |
| 0623 | Hoop Dreams Scholarship Fund | \$42,000 | \$0 |
| 0625 | Career and Tech Education | \$2,000 | \$67 |
| 0627 | BOE – Real Property Improvement Fund | \$1,400,000 | \$1,014,572 |
| 0630 | Teacher Certification Fees | \$250,000 | \$315,000 |
| Total | | \$7,329,992 | \$7,909,830 |

Intra-District Revenue

Intra-District revenues are an accounting mechanism used to track payments for services provided by DCPS for another District agency. As shown below, the total FY 2006 projected revenue amount is \$62,377,537. This represents an increase of \$7,970,741 or 14.65 percent compared to the FY 2005 projected revenue amount of \$54,405,796. This is primarily attributed to a projected revenue increase for the out-of-state tuition payments for non-special education students through Child and Family Services.

| District of Columbia Public Schools — Intra-District Revenue | | | | |
|--|----------------------------|---------------------------|--------------------------------|------------------------------|
| Project Number | Project Name | FY 2004 Actual Revenue | FY 2005 Budgeted Revenue | FY 2006 Projected Revenue |
| 000D11 | TANF | \$1,822,800 | \$0 | \$1,822,800 |
| 000D12 | Summer Ed, Arts and Sports | \$10,567,587 | \$9,011,756 | \$10,567,587 |
| 000DMC | Headstart Training | \$668,674 | \$958,244 | \$1,620,849 |
| 000HSS | Headstart Snack Program | \$37,000 | \$0 | \$36,000 |
| 000XCC | School Lunch | \$14,810,131 | \$15,331,892 | \$12,541,767 |
| 000XDZ | School Breakfast | \$3,850,924 | 3,850,924 | \$3,319,822 |
| 000XHD | Summer Food | \$1,451,601 | \$1,451,601 | \$724,639 |
| 000XHF | Summer Administration | \$398,760 | \$398,760 | \$61,702 |
| 000SRM | State Revenue Match | \$0 | \$0 | \$425,000 |
| 000RAN | Driver's Education Program | \$533,236 | \$550,000 | \$596,580 |

| | | | | |
|--------------|-----------------------------------|---------------------|---------------------|---------------------|
| 000DRE | School Based Recreational Program | \$452,704 | \$370,000 | \$479,866 |
| 000OST | Out of State Tuition Payments | \$3,800,000 | \$0 | \$3,800,000 |
| 000ZAK | Medicaid Funds | \$23,252,609 | \$22,258,552 | \$25,768,597 |
| 000ASP | After School For All | \$383,900 | \$0 | \$591,129 |
| Total | | \$72,726,973 | \$54,405,796 | \$62,377,537 |